PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITOR'S REPORT
AND
BASIC FINANCIAL STATEMENT AND
OTHER SUPPLEMENTARY INFORMATION

For the years ended June 30, 2017 and 2016

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

RAMIREZ FLORES AND CO, PSC
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the *Public Buildings Authority* (the Authority), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed int the table of contents. The financial statements as of and for the year ended June 30, 2016, before restatement, were audited by other auditors whose report dated April 25, 2018 expressed a qualified opinion on such statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our Opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Public Buildings Authority as of June 30, 2017, and the respective changes in financial position and its cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reissuance of June 30, 2017 financial statements

As reflected in Note 24, the Authority reissued the financial statements issued on June 24, 2019, because the management subsequently discovered facts about the agreements with monoline insurers of the Authority's bonds containing subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and recognized such liability.

Also reflected in Note 24, the Authority's management subsequently discovered facts about the impact recorded as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. After further consideration of the legal aspects of the agreement, management corrected the balances reflected in the Statement of Net Position (Deficit) as of June 30, 2017 and the Statement of Revenues Expenses and Changes in Deficit for the year then ended.

Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, in the Notes.

Our opinion was not modified with respect of the above matters.

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To the Board of Directors of the
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Emphasis of Matter (continued)

Uncertainty about Ability to Continue as a Going Concern-the Authority

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 3, 6, and 11 to the financial statements, the Authority is a component unit of the Commonwealth. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Authority depends significantly on appropriations from the Commonwealth, the financial condition and liquidity of the Authority has been similarly affected. Further, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation and plans regarding these matters are described in note 3 to the basic financial statements. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 5 to 19 and the schedule of funding progress for post-employment healthcare benefits on page 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we

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To the Board of Directors of the
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obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of bond sinking funds accounts and the schedule of operating rental revenues on pages 75 and 76, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of bond sinking funds accounts ant the schedule of operating rental revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in United states of America. In our opinion the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2020, see emphasis of a matter paragraph, reissuance of June 30, 2017 financial statements, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The Purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That reports an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March18,2020
Certified Public Accountants
License No. 231 expires December 1, 2021
Stamp No. 381406 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report

RAMIREZ FLORES AND CO
Certified Public Accountants
Lic. #231
Puerto Rico

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Introduction

As management of the Public Buildings Authority ("the Authority"), we reissued the financial statements issued on June 24, 2019, because we subsequently discovered that the agreements with monoline insurers of our bonds contain subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and we are recognizing such liability. We offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority FOR THE YEARs ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

- The Authority's deficit increased by $38.7 million or 4.5% during the year ended June 30, 2017. For the year ended June 30, 2016, the deficit increased by $255.8 million or 87.4%. For the year ended June 30, 2017, the Authority reported an increase in rental income of $158.0 million. For the year ended June 30, 2016 the Authority reported a decrease in rental income of $201.5 million. During the year ended June 30, 2016, the Authority reduced the rent revenue by $222.5 million that resulted from a more conservative estimate for uncollectible amounts due from the Commonwealth, in which all but current year rent receivable was reserved as uncollectible. During the year ended June 30, 2017, management accounted for the offset of the Authority's cash balances, rent due from GDB, and line of credit due GDB as a result of agreement between the two entities for $42.6 million. During the year ended June 30, 2016, the Authority charged the debt service rental by $13.4 million for repayment of GDB line of Credit. During the year ended June 30, 2017, operating expenses decreased by $4.5 million or 1.9%. During the year ended June 30, 2016, operating expenses decreased by $2.6 million or 1.2%.

- The Authority's operating income increased from a restated loss of $31.6 million for the year ended June 30, 2016 to an operating income amounting to $130.8 million for the year ended June 30, 2017, mostly due to the reduction of 2016 rent revenue of $222.5 million, for estimated uncollectible amounts as explained in the preceding paragraph.

- The Authority's non-operating expenses decreased from $243.6 million for the year ended June 30, 2016 to $169.6 million for the year ended June 30, 2017 mostly due to the recognition of the aforementioned agreement between the Authority and GDB and the 2016 custodial credit risk loss on deposits held with GDB amounting to $40.6 million.

Going Concern and Liquidity Risk

The Authority's management believes that there is substantial doubt as to its ability to continue as a going concern in accordance Governmental Accounting Standard Board (GASB) Statements No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.

The Authority operations have been directly affected by the Commonwealth liquidity limitations and constraints during the years ended June 30, 2017 and 2016. As the Commonwealth's tax base has shrunk and its revenues declined by prevailing economic conditions resulting from a prolonged economic recession which commenced in 2006. High unemployment, population decline, and high levels of debt and debt service requirements, pension obligations, and health care costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services and budget reductions allocable to governmental units, including the Authority. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations contributed to significant budget deficits for several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints have directly impacted the Authority's liquidity resulting in noncompliance with repayment of debt obligations when they became due during the years ended June 30, 2017 and 2016.

Fiscal Plan

Additionally, pursuant to PROMESA and the requirements imposed by the Oversight Board, on October 23, 2018, the Oversight Board certified its own fiscal plan for the Commonwealth (the Board Fiscal Plan). The Board Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. The Authority, as enforced by law, is adhered to such Fiscal Plan.

Overview of the Basic Financial Statements

The Authority's basic financial statements consist of: Management's Discussion and Analysis ("MD&A"), Basic Financial Statements, Notes to financial Statements, Required Supplementary Information and Other Supplementary Information.

Management's Discussion and analysis

The management's discussion provides an analysis to assist the readers in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements

The statement of Net Position presents financial information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed

expenses. Increases in assets, without a corresponding increase to liabilities, result in a net position increase, which also indicates an improved financial position.

The Statement of Revenues, Expenses and Changes in Net Positions presents information showing how the Authority's net position changed during the period and are reported as soon the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, investing activities, and non-cash items.

The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

Required Supplementary Information

The required supplementary information provides information concerning the Authority's progress in funding of postemployment healthcare benefits to employees.

Other Supplementary Information

In addition to the basic financial statement, accompanying notes and required supplementary information, various schedules present certain information concerning changes in bond sinking funds accounts and detail of operating rental revenues.

Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Authority, the deficit at June 30, 2017, 2016 and 2015 amounted to approximately $901.8 million, restated $863.1 million, and restated $587.7 million, respectively.

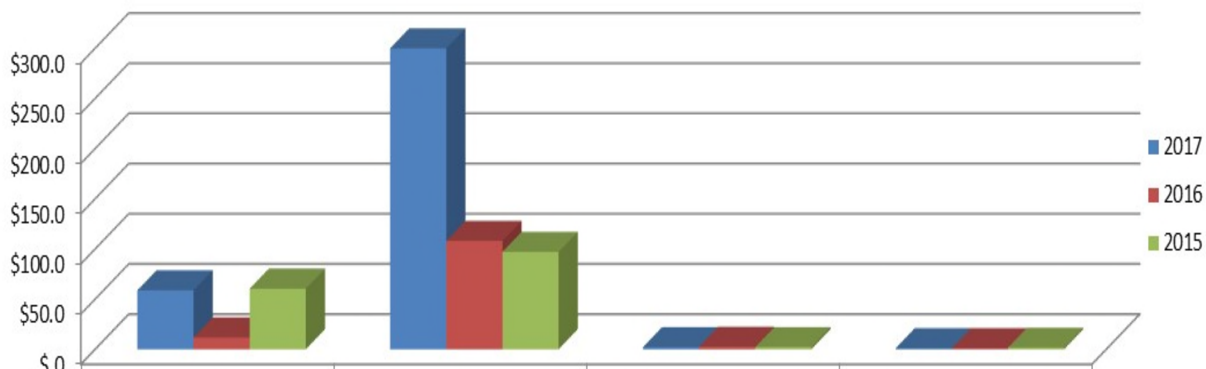
Statement Net Position

Following is condensed financial information of the Authority's statements of net position:

	June 30,		
	2017	2016	2015
Assets			
Current assets	$ 361,483,628	$ 123,085,453	$ 160,856,633
Capital assets	3,414,144,012	3,509,135,717	3,584,774,401
Other non-current assets	38,234,019	203,911,657	429,907,289
Total assets	3,813,861,659	3,836,132,828	4,175,538,323
Deferred outflows of resources	206,062,037	166,991,114	175,765,103
Total assets and deferred outflows of resources	4,019,923,695	4,003,123,942	4,351,303,426
Liabilities			
Current liabilities	382,591,805	263,029,360	274,382,923
Non-current liabilities	4,590,396,863	4,601,178,603	4,629,945,142
Total liabilities	4,972,988,669	4,864,207,963	4,904,328,065
Deferred Inflows of Resources	8,507,891	2,053,700	-
Total liabilities and deferred inflows of resources	4,981,496,560	4,866,261,663	4,904,328,065
Deficit			
Net investment in capital assets	(611,126,864)	(94,389,572)	31,690,664
Restricted Deficit	-	-	8,800,871
Deficit	(350,446,001)	(768,748,150)	(333,205,891)
Total deficit	$ (961,572,865)	$ (863,137,722)	$ (292,714,356)

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Current assets (in millions)



	Cash	Rent receivable, net	Other receivables, net	Other current assets
2017	$58.7	$299.8	$2.0	$1.0
2016	$11.7	$107.9	$2.5	$1.0
2015	$60.4	$97.0	$2.1	$1.4

When comparing June 30, 2017 with June 30, 2016, current assets increased by $238.4 million or 194%. Within current assets, cash at June 30, 2017 was $47.0 million or 401.5% higher than at June 30, 2016, rent receivable, net, was $191.1 million higher than previous year, thus accounting for most of the increase in current assets. This increase in cash was primarily the result of the cash flows activity from the Department of Treasury which withheld payments in fiscal year ended June 30, 2016, as reflected in the decrease in balance from June 30, 2015, and receipts from the Department of Treasury during the year ended June 30, 2017 for rent due and not paid in the year ended June 30, 2016.

When comparing June 30, 2016 with June 30, 2015 current assets decreased by approximately $37.8 million or 23.5%. This decrease was mainly related the decrease in the certificates of deposit balance and the custodial credit risk loss on deposits held with Government Development Bank (GDB) amounting to $40.6 million.

PUBLIC BUILDINGS AUTHORITY
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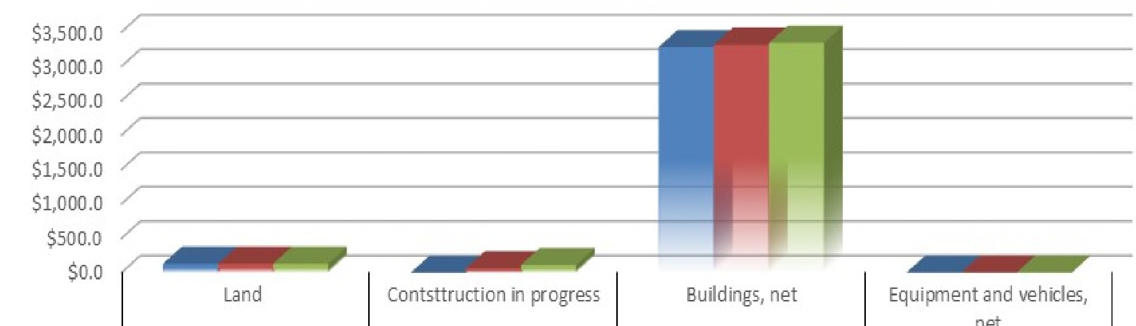
Capital assets (in millions)



	Land	Contsttruction in progress	Buildings, net	Equipment and vehicles, net
2017	$129.6	$0.6	$3,281.0	$3.0
2016	$129.6	$62.1	$3,314.1	$3.3
2015	$129.6	$111.9	$3,340.0	$3.1

Construction in progress consists principally of costs incurred. Including capitalized interest and administrative costs, in the construction of new facilities or improvement to existing facilities. During the year ended June 30, 2012, the Authority commenced with the 21st Century School Program (the School Program), which consists of the construction or improvement of over 100 public schools.

The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the Commonwealth, to serve as construction manager. Under the contract, AFI is responsible for the management of the program including, among others, contracting general contractors and/or subcontractors, inspection, supervision and acceptance of the remodeled schools and, in certain cases, provides maintenance to the schools. AFI bills the Authority the cost of the program plus an administrative fee.

At June 30, 2017, 2016 and 2015 construction in progress includes approximately $553 thousand, $62.1 million, and $11.9.9 million, respectively related to the School Program.

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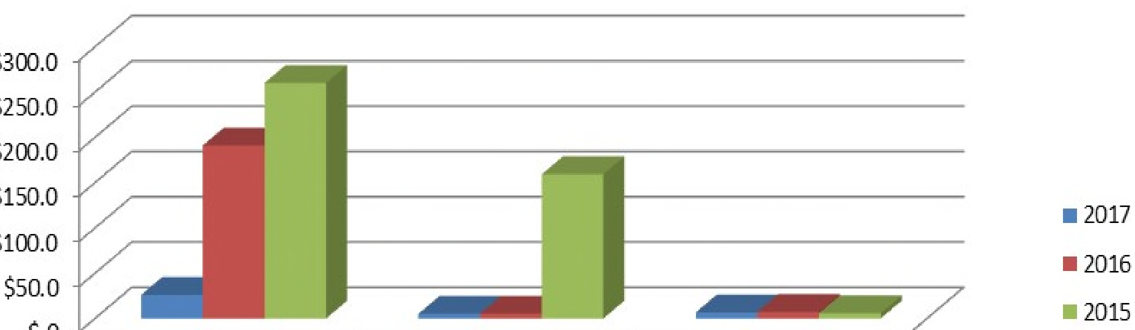
When facilities under construction are completed, the cost of the facility is transferred to the account where the Authority commences to record depreciation on the facility and charges rent to the facility's tenants.

Other non-current assets (in millions)



	Restricted cash	Note rec. from other gov. agency	Prepaid insurance on bonds
2017	$26.2	$5.3	$6.8
2016	$191.1	$5.4	$7.4
2015	$260.1	$159.3	$5.9

When comparing June 30, 2017 with June 30, 2016, other non-current assets decreased by $165.9 million or 40.7%, mostly due to the use of the Bond sinking funds to make debt service payments with no contributions to the sinking fund or debt service payments resulting from a moratorium declared by the Commonwealth of Puerto Rico.

During the years ended June 30, 2016 and 2015, restricted cash and cash equivalents decreased by approximately $68.9 million and $78.2 million or 27% and 23%, respectively, principally due to a decrease in construction fund for monies used to finance the cost of facilities constructed during the year, especially the schools under the School Program and the loss on custodial credit risk amounting to $12.4 million during year 2016.

PUBLIC BUILDINGS AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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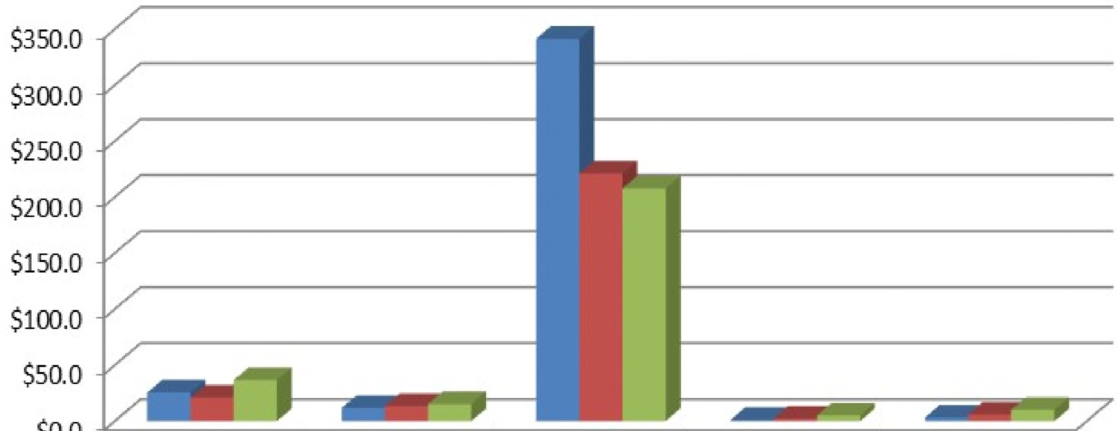
Current liabilities (in millions)



	Accounts payable	Accrued expenses	Bonds and interest payable	Rent collected in advance	Due to contractors
2017	$25.5	$11.6	$341.3	$1.0	$3.1
2016	$21.0	$13.4	$221.0	$2.2	$5.9
2015	$36.6	$15.2	$207.6	$4.9	$10.1

When comparing June 30, 2017 with June 30, 2016, current liabilities increased by $119.1 million or 45.2%, mostly due to the Commonwealth of Puerto Rico moratoria in debt service payments during the year ended June 30, 2017, resulting in an increment in bonds and interest due.

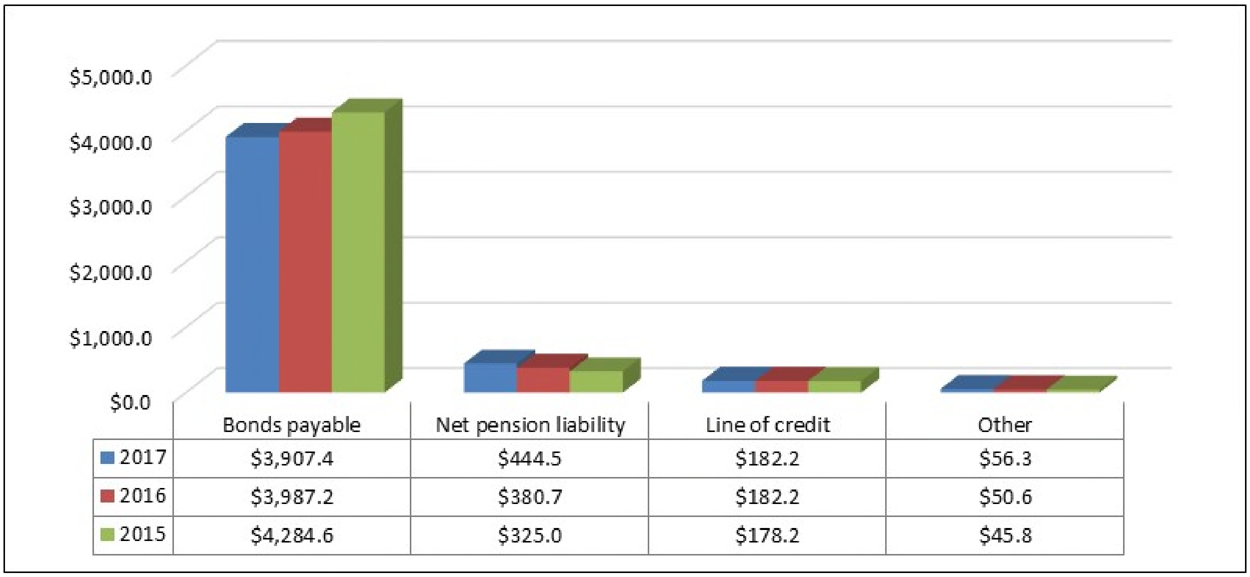
Accounts payable at June 30, 2017 increased by $4.6 million when compared with June 30, 2016 mostly due to delays in payments to vendors to preserve cash.

Accrued expenses at June 30, 2017 decreased by $1.8 million when compared with June 30, 2016 mostly due to the following: a) a decrease in compensated absences ($3.8 million); b) other accrued expenses ($2.7 million); c) net of an increase in voluntary termination benefits ($4.7 million).

Bonds and interest payable consist of the current portion of the amounts due at June 30, 2017 and 2016. The amount due at June 30,2016 are in accordance with debt repayment schedule. The amount due at June 30,2017 are in compliance with debt repayment schedule and include subrogation rights that are limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds.

Due to contractor represents the balance for projects under constructions. Normally, the contractors submit progress billing for projects in process and the authority pays thee invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

Non-current liabilities (in millions)



The decrease in bonds payable during the years ended June 30, 2017 and 2016, consists of the payments made during each fiscal year in accordance with the related payment schedule.

The increase in net pension liability in the years ended June 30, 2017 and 2016 were $63.8 million and $55.7 million, respectively. The Authority implemented in the year ended June 30, 2017, GASB statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27, with corresponding restatements of the Statement of Net Deficit as of June 30, 2016 and the Statement of Revenues, Expenses and Changes in Deficit for the year ended June 30, 2016, including the restatement of beginning net deficit. This resulted in a net adjustment to net deficit of approximately $295.0 million as of June 30, 2015 and $314.6 million as of June 30, 2016.

The Authority has various line of credit agreements with GDB. Some of the agreements are to provide interim financing for construction of Authority's facilities while others are to finance operations including the financing of debt services requirements under the bond agreements.

Other non-current liabilities at June 30, 2017 and 2016, mainly consist of the non-current portion of post-retirement employee benefits, legal claims, voluntary termination benefits, and advances from other agencies. These amounts mainly increased in total by $6.0 million: $15 million increase in voluntary termination benefits, $13.2 million decrease in accrued legal contingencies, $.873 million increase in other post-employment benefits, $3.2 million increase in compensated absences.

Statement of Revenues, Expenses and Changes in Deficit

Following is a condensed financial information of the Authority's statement of revenues, expenses and changes in deficit:

	Years Ended June 30,		
	2017	**2016**	**2015**
REVENUES:			
Operating	$ 363,794,738	$ 205,780,405	$ 407,268,438
Non-operating	30,003,409	37,661,553	42,134,794
Total revenues	393,798,147	243,441,958	449,403,232
EXPENSES:			
Operating	251,994,173	237,480,679	220,476,925
Non-operating	240,239,117	281,348,413	241,173,609
Total expenses	492,233,290	518,829,092	461,650,534
Change in net deficit	(98,435,143)	(275,387,135)	(12,247,302)
Deficit:			
Beginning of year, as restated	(863,137,722)	(587,750,587)	(575,503,285)
End of year	$ (961,572,865)	$ (863,137,722)	$ (587,750,587)

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
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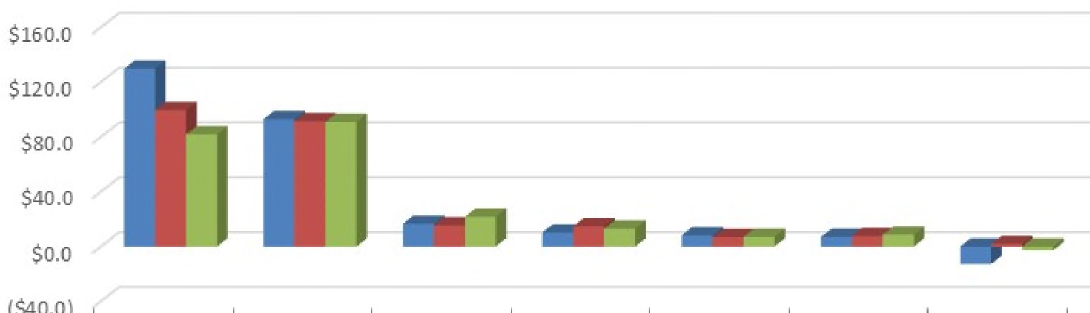
Operating revenues

Operating revenues consists principally of rent charges to agencies, public corporations and municipalities of the Commonwealth. Operating revenues increased $158.0 million from 2017 to 2016 mainly as a result of uncollectible amounts expense recognized in 2016 of $222.5 for rent receivables by agencies and public corporations of the Commonwealth.

Operating revenue decreased approximately $201.5 million from 2015 to 2016 as a result of reduction in the estimated rent made by the Commonwealth.

Expenses (in millions)

The following chart discloses the major components of operating expenses for the years ended June 30, 2017, 2016 and 2015:



	Salaries and benefits	Depreciation	Utilities	Repairs	Other	Rent and insurance	Legal claims
2017	$129.8	$92.9	$16.6	$10.2	$8.1	$7.0	($12.6)
2016	$99.5	$91.6	$15.5	$14.7	$6.8	$7.6	$1.8
2015	$81.8	$91.0	$21.8	$12.9	$7.0	$8.7	($2.7)

During the year ended June 30, 2017 operating expenses decreased by $4.5 million or 1.9% when compared with fiscal year 2016. During the year ended June 30, 2016 operating expenses decreased by $2.6 million or 1.2% when compared with fiscal year 2015. Salaries and benefits increased by approximately $30.3 million mostly due to the implementation of GASB No. 68 and preretirement state Law No. 211 of 2015. Depreciation expense increased by $1.3 million due to increase in projects transferred as completed and started to depreciate. Utility expenses increased by $1.1 million mostly due to increases in utility rates. The repairs and maintenance expenses decreased by $4.5 million mostly due to lack of resources to perform preventive maintenance and repairs. The other expenses increased by $1.3 million. Rent and insurance decrease $0.6 million. Legal reserve decreased by approximately $14.4 million in response to management's reassessment of legal contingencies.

Non-operating Revenues and/or Expenses

Nonoperating expense consists of interests paid and accrued on Authority's bonds and lines of credit agreements with GDB amounting to $240.2 and $240.8 million during the years ended June 30, 2017 and 2016, respectively.

The custodial credit risk loss amounting to $41 million was recorded during the year ended June 30, 2016.

Interest and other income increase by $19.1 million primarily due to debt service insurance proceeds used to service debt the Authority defaulted on.

During the years ended June 30, 2017 and 2016, the Authority received a subsidy from the Federal Government in the amount of approximately $27.7 and $36.1 million, respectively, for the payment of interest on series R and T bonds issued during 2012.

During the years ended June 30, 2017 and 2016, the authority received operating grants from the Commonwealth to finance operating expenses in the amounts of approximately $1.8 million and $832 thousand, respectively.

Capital Assets:

	June 30,		
	2017	**2016**	**Change**
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,569,461	$ -
Construction in process	553,531	62,091,446	(61,537,915)
Total	130,122,992	191,660,907	(61,537,915)
Capital assets being depreciated			
Buildings	3,281,040,376	3,314,131,540	(33,091,164)
Equipment and vehicles	2,905,503	3,343,270	(437,767)
Total	3,283,945,879	3,317,474,810	(33,528,931)
Total Capital assets	$ 3,414,068,871	$ 3,509,135,717	$ (95,066,846)

	June 30,		
	2016	**2015**	**Change**
Capital assets not being depreciated			
Land	$ 129,569,461	$ 129,550,969	$ 18,492
Construction in process	62,091,446	111,941,071	(49,849,625)
Total	191,660,907	241,492,040	(49,831,133)
Capital assets being depreciated			
Buildings	3,314,131,540	3,339,965,262	(25,833,722)
Equipment and vehicles	3,343,270	3,118,735	224,535
Total	3,317,474,810	3,343,083,997	(25,609,187)
Total Capital assets	$ 3,509,135,717	$ 3,584,576,037	$ (75,440,320)

The Authority's investment in capital assets as of June 30, 2017 and 2016 amounted to approximately $3.4 and $3.5 billion, net of accumulate depreciation, respectively. Capital assets include land, land improvements, construction in progress, building, equipment, furniture, and vehicles. Most building consists of governmental facilities that are leased to the commonwealth's agencies and public corporations. For more information, please refer to Note 12 of the basic financial statement.

During the years ended June 30, 2017 and 2016, the Authority completed approximately $61.5 million in construction projects and $49.8 million, respectively, in construction projects that were leased to the Commonwealth mainly related to the 21st Century Schools projects.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Debt Administration

Debt consist principally of bond payable, net of related unamortized bond discount or premiums, and borrowing under line of credit agreements with GDB. It does not include the balance of subrogated rights limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds. Debt was issued principally to finance capital assets and to finance operating expenses and is summarized as follows:

	June 30,		
	2017	2016	Change
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	3,957,179,866	4,028,647,000	(71,467,134)
Total	3,994,494,866	4,065,962,000	(71,467,134)
Add (deduct):			
Bond discount	(23,895,255)	(25,246,416)	1,351,161
Bond premiums	28,293,540	32,598,039	(4,304,499)
Total	4,398,285	7,351,623	(2,953,338)
Bonds payable net	3,998,893,151	4,073,313,623	(74,420,472)
Lines of credit with GDB	182,160,106	182,160,106	-
Total debt	$ 4,181,053,257	$ 4,255,473,729	$ (74,420,472)

	June 30,		
	2016	2015	Change
Revenue bonds	$ 37,315,000	$ 37,315,000	$ -
Government facilities	4,028,647,000	4,110,647,000	(82,000,000)
Total	4,065,962,000	4,147,962,000	(82,000,000)
Add (deduct):			
Bond discount	(25,246,416)	(26,597,576)	1,351,160
Bond premiums	32,598,039	37,667,809	(5,069,770)
Deferred loss on bonds defeased	-	-	-
Total	7,351,623	11,070,233	(3,718,610)
Bonds payable net	4,073,313,623	4,159,032,233	(85,718,610)
Lines of credit with GDB	182,160,106	178,183,854	3,976,252
Total debt	$ 4,255,473,729	$ 4,337,216,087	$ (81,742,358)

June 30, 2017 and 2016

During the year ended June 30, 2017, bonds payable decreased by approximately $71.5 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. The bonds payable does not include the balance of subrogated rights limited to amounts actually paid by the monoline insurers for each of the missed payments on the insured bonds.

June 30, 2016 and 2015

During the year ended June 30, 2016, bonds payable decreased by approximately $82.0 million before amortization of bonds discount and premiums due to schedule of principal payments on bonds. During fiscal year 2016, the Authority did not make payments for available line of credits; proceeds were obtained for $3.9 million. Also, scheduled interests for the year on such line of credits were not paid.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Building Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents, includes custodial credit risk of $62,025,050 in 2017 and $28,162,468 in 2016	$ 58,669,361	$ 11,698,832
Rent receivable, net of allowance for uncollectible accounts	299,844,011	107,925,407
Other receivables, net of allowance for uncollectible accounts	1,985,242	2,450,986
Other current assets	985,014	1,010,229
Total current assets	361,483,628	123,085,453
Non-current assets:		
Restricted cash and cash equivalents:		
Bond sinking funds	4,492,977	167,231,893
Construction funds, includes custodial credit risk of $221,232,486 in 2017 and $8,322,926 in 2016	21,692,645	23,903,626
Note receivable from other governmental agency	5,281,269	5,366,086
Prepaid insurance on bonds	6,767,128	7,410,052
Capital assets:		
Land and construction in progress	130,122,993	191,660,907
Buildings, equipment and vehicles, net	3,284,021,019	3,317,474,810
Total non-current assets	3,452,378,031	3,713,047,374
Total assets	3,813,861,659	3,836,132,828
Deferred Outflows of Resources -		
Deferred loss on bond defeasance	90,231,166	98,828,558
Deferred outflows related to pension plans	115,830,871	68,162,556
Total deferred outflows of resources	206,062,037	166,991,114
Total assets and deferred outflows of resources	$ 4,019,923,695	$ 4,003,123,942

Continues

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2017 AND 2016

Continued

	2017	2016
LIABILITIES AND NET POSITION (DEFICIT)		
Current liabilities:		
Accounts payable	$ 20,081,927	$ 8,215,889
Intergovernmental	3,424,773	9,546,497
Accrued expenses	797,246	3,090,596
Rent collected in advance	1,024,065	2,204,411
Accrued legal contingencies	133,749	480,724
Compensated absences	3,999,779	7,833,309
Other post-employment benefits	400,765	390,278
Voluntary termination benefits	6,301,591	1,595,085
Current liabilities payable from restricted assets:		
Bonds payable	100,991,226	86,125,000
Interest payable	240,268,116	134,912,621
Due to contractors	3,145,518	5,902,448
Due to Puerto Rico Infrastructure Financing Authority	2,023,050	3,213,227
Total current liabilities	382,591,805	263,510,084
Non-current liabilities:		
Borrowing under line of credit	182,160,107	182,160,107
Bonds payable	3,907,412,263	3,987,188,623
Advances from other governmental agencies	553,531	460,329
Due to contractors	8,451,593	8,904,067
Accrued legal contingencies	4,643,003	17,857,514
Compensated absences	8,505,313	5,240,833
Net pension liability	444,525,548	380,714,914
Other post-employment benefits	15,890,486	15,017,444
Voluntary termination benefits	18,255,019	3,154,047
Total non-current liabilities	4,590,396,863	4,600,697,879
Total liabilities	4,972,988,669	4,864,207,963
Deferred Inflows of Resources		
Deferred inflows related to pension plan	8,507,891	2,053,700
Total liabilities and deferred inflows of resources	4,981,496,560	4,866,261,663
Net deficit		
Net investment in capital assets	(611,126,864)	(94,389,572)
Deficit	(350,446,001)	(768,748,150)
Total Deficit	$ (961,572,865)	$ (863,137,722)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES EXPENSES AND CHANGES IN DEFICIT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016 As restated
Operating revenues:		
Rental revenues from governmental agencies, net of uncollectible amounts expense of $50,980,253 in 2017 and $222,461,178 in 2016	$ 363,794,738	$ 205,780,405
Operating expenses:		
Salaries and employees' benefits	129,829,984	99,504,950
Depreciation	92,869,207	91,631,886
Utilities	16,601,544	15,486,619
Repairs and maintenance	10,189,358	14,720,632
Voluntary termination benefits	33,571	160,624
Security services	2,050,000	1,748,517
Rent and insurance	7,014,281	7,567,781
Legal claims	(12,628,765)	1,761,144
Other, net of capitalized expenses of $7,453 and $14,487 in 2017 and 2016, respectively	6,034,993	4,898,527
Total operating expenses	251,994,173	237,480,679
Operating income (loss)	111,800,565	(31,700,274)
Non-operating revenue (expenses):		
Grant for the payment of bonds	27,669,504	36,135,387
Operating grants from commonwealth of Puerto Rico	1,623,015	831,643
Interest on bonds and notes	(240,239,117)	(240,758,111)
Interest and other income	353,860	347,237
Service charges and other	247,028	347,286
Custodial credit risk loss	110,002	(40,590,302)
Total non-operating revenue (expenses)	(210,235,708)	(243,686,860)
Change in deficit	(98,435,143)	(275,387,135)
Deficit		
At beginning of year as previously reported	-	(292,714,356)
Restatement adjustment - GASB Statement No. 68 adoption	-	(295,036,231)
At beginning of year, as restated	(863,137,722)	(587,750,587)
At end of year	$ (961,572,865)	$ (863,137,722)

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating activities:		
Receipts from tenants	$ 161,428,497	$ 347,559,663
Payments to employees and related benefits	(84,454,572)	(79,651,270)
Payments for goods and services	(26,047,420)	(50,216,553)
Custodial credit risk loss	-	(28,162,468)
Net cash provided by operating activities	50,926,505	189,529,372
Noncapital related financing activities:		
Operating grants from Commonwealth of Puerto Rico	-	831,643
Other non-operating receipts (disbursments)	(1,190,176)	213,766
Net cash (used in) provided by noncapital related to financing activities	(1,190,176)	1,045,409
Capital and related financing activities:		
Capital expenditures, net of interest capitalized	-	(29,793,384)
Custodial credit risk loss	-	(12,427,834)
Subsidy from federal government for the payment of bonds	27,669,504	36,135,387
Payment of bonds	(79,776,360)	(82,000,000)
Proceeds from borrowing under line of credits	-	3,976,252
Interest paid	(134,874,622)	(238,146,359)
Proceeds from bond insurers	19,087,764	-
Advances from governmental agencies	93,202	277,095
Proceeds from sale of property	-	198,364
Net change in bonds loss defeased bonds	-	8,773,989
Net cash used in capital and related financing activities	(167,800,512)	(313,006,490)
Investing activities		
Net change in amount due from Commonwealth of Puerto Rico	84,817	475,746
Collection of notes receivable	-	500,653
Interest and investment income collected	-	342,260
Net cash provided by investing activities	84,817	1,318,659
Net decrease in cash and cash equivalents	(117,979,366)	(121,113,050)
Cash and cash equivalents		
At beginning of year	202,834,351	323,947,401
At end of year	$ 84,854,985	$ 202,834,351

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Continued

	2017	2016
Reconciliation of cash and cash equivalents presented in the statement of net position:		
Cash and cash equivalents	$ 58,669,361	$ 11,698,832
Restricted cash and cash equivalents:		
Bonds sinking funds	4,492,977	167,231,893
Construction funds	21,692,645	23,903,626
Total cash and cash equivalents	$ 84,854,984	$ 202,834,351
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	$ 111,800,565	$ (12,125,471)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	92,869,207	91,631,886
Uncollectible accounts expense	50,980,253	222,461,178
Net change in operating assets and liabilities:		
Rent receivable	(240,675,970)	(77,974,960)
Other receivables, net	474,155	-
Other current assets	25,215	430,237
Prepaid insurance on bonds	642,925	642,924
Accounts payable and accrued expenses	9,572,686	(4,666,994)
Rent collected in advance	(1,180,346)	(2,706,960)
Custodial credit risk loss	-	(28,162,468)
Due to contractors	(3,209,404)	-
Accrued legal contingencies	(13,080,762)	-
Compensated absences	(569,050)	-
Other post-employment benefits	873,042	-
Voluntary termination benefits	19,807,479	-
Net pension liability	63,810,634	-
Deferred outflows related to pension plans	(47,668,315)	-
Deferred inflows related to pension plans	6,454,191	-
Net cash provided by operating activities	$ 50,926,505	$ 189,529,372
Summary of Non-Cash Transactions:	$ -	$ -

The accompanying notes are an integral part of these financial statements.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION

The Public Building Authority (the "Authority") is a blended component unit of the commonwealth of Puerto Rico (the "Commonwealth"), created on June 19, 1958 by Act No.56, As amended, of the Legislature of Puerto Rico (the "Enabling Act"). The Authority designs, construct, administers, and provides maintenances to office building, courts, warehouses, schools, health care facilities, welfare facilities, shops and related facilities leased to the commonwealth of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the authority to cover the payment of:

i. Principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
ii. Operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation; and,
iii. Cost of equipment replacement and extraordinary repairs

Components (ii) and (iii), described above, are subject to escalation to permit the Authority to recover the costs incurred. Amounts due from departments and governmental agencies of the commonwealth may be subject to periodic revisions and/or adjustment based on the availability of funds at the commonwealth level.

The Enabling Act provides that the full faith and credit of the commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the commonwealth. The Enabling Act also provides that the Department of treasury of the commonwealth of Puerto Rico (Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of account receivable since the responsibility of reimbursement belong to the agency in accordance to the Enabling Act. This obligation was suspended pursuant the Puerto Rico Emergency Moratorium and Rehabilitation Act and executive orders issued thereunder, as described more fully in Note 25.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of Accounting –** The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard- setting body for establishing governmental accounting and financial reporting principles.

The activities of the Authority are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded as incurred.

b. **Use of Estimates –** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

c. **Fair Value of Financial Instruments –** The carrying amounts reported in the statements of net positions for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximates the rates currently available in the market for other debt with similar terms and remaining maturities.

d. **Cash and Cash Equivalents –** Cash and cash equivalents include all highly liquid instruments with maturities of three months or less at time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows.

e. **Allowance for Uncollectible Accounts** – The allowance for uncollectible accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term.

f. **Restricted Assets and Liabilities Payable from Restricted Assets –** Restricted assets represent the amounts deposited by the Authority to provide for the principal and interest payment of bonds payable and related interest costs and cash available in the related construction fund. When both restricted and unrestricted resources are available for specific use, it is the authority's policy to use restricted resources first, then unrestricted resources as they are needed.

g. **Capital Assets –** Capital` assets are recorded at cost. The construction cost includes indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life in excess of five (5) years.

Interest cost is capitalized as part of the historical cost of acquiring certain assets while the assets are readied for their intended use. Interest earned on unspent tax-exempt borrowings restricted for acquisition of qualifying assets is offset against interest costs to determine the net amount to be capitalized.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, is as follows:

Buildings	50 Years
Equipment's and automobiles	5-10 years

h. **Impairment of Capital Assets –** A capital assets is considered impaired when its service utility has declined significantly and unexpectedly. The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairments include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital asset, and construction stoppage, among others.

No impairment allowance was identified during the years ended June 30, 2017 and 2016.

i. **Claims and Judgments –** The estimate amount of the liability for claims and judgment is recorded on the accompanying statements of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

j. **Compensated Absences** – Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

k. **Bonds premiums, Discounts, and loss on Defeasance –** Bond premiums and discount are amortized as a component of interest expense over the lives of the related issue using the straight-line method in a manner that approximates the interest method.

   The deferred loss on bond defeasance is presented as deferred outflows in the accompanying statement of net position and the related amortization is presented as a component of interest expense.

l. **Deferred Outflows/Inflows of Resources –** In addition to assets and liabilities, the authority reports a separate section for deferred outflows/inflows of resources. This separate financial statement element, deferred outflows/inflows of resources, represents a consumption of net position that applies to a future period(s) and so be recognized as an outflow of resources (expense) until then.

m. **Net Position** – The difference between assets and liabilities is presented as "Net Position". Component of net position are the following:

   1) Net investment in capital assets – Consists of Capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgages notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds, is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

   2) Restricted for debt services – Net position restricted for debt service consists of restricted net assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

   3) Restricted for other purposes – This restriction is imposed by the grantors and contributors.

   4) Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

n. **Operating Revenues and Expenses** – The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with the rent of the and other

All current existing leases meet the criteria to be treated as operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral as collateral for the repayment of the Authority's revenue bonds.

o. **Non-operating revenues** include activities that have the characteristic of non-exchange transactions that are defined as non-operating revenues by GASB Statement No.33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, such as state appropriations and investment income.

p. **Risk Financing-** The Authority carries commercial insurance to cover casualty, theft, claim and other loss. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the commonwealth.

q. **Reclassification of prior year presentation –** Certain reclassifications were made to the 2016 financial statements, in order to conform them to the current's presentation.

3. SIGNIFICANT DEPENDENCY ON COMMONWEALTH OF PUERTO RICO

Going Concern

As a part of its normal operating activities, and as disclosed in Notes 6, 11 and 16 to the basic financial statements, the Authority has significant balances and transactions with the Commonwealth of Puerto Rico (Commonwealth) and with the Government Development Bank for Puerto Rico (GDB). The Commonwealth and GDB face significant uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Because of these uncertainties, the amounts due from the Commonwealth, may not be collected in the near future, and the Authority's management is unable to determine when such amounts will be appropriated by the Legislature of the Commonwealth. Concurrently, these amounts due from Commonwealth are the sole source for the payment of the corresponding rent contracts charges to Commonwealth related entities and costs of certain construction projects that have been suspended or cancelled by Commonwealth, as disclosed in Note 6 and 11 to the basic financial statements.

GDB has traditionally served as a source of emergency liquidity to bridge the Commonwealth and its component units' deficits, but experienced its own liquidity constraints and was unable to continue serving in such role (refer to Note 25, Subsequent Events). Loan granted by GDB to the Commonwealth and its component unit constitute a significant portion of GDB's assets. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years.

On May 1, 2017, the stay under Title IV of Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA. Title lll of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title lll cases pursuant to PROMESA section 301(a). The Authority management's plan is to adhere to the Commonwealth Remediation Plan.

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On October 23, 2018, the Oversight Board certified its own new fiscal plan for the Commonwealth (the Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

(i) *Human Capital and Welfare Reform*

(ii) *Ease of Doing Business Reform*

(iii) *Energy and Power Regulatory Reform*

(iv) *Infrastructure and Capital Investment Reform*

(v) *Establishment of the Office of the CFO*

(vi) *Agency Efficiency Measures*

(vii) *Healthcare Reform*

(viii) *Tax Compliance and Fees Enhancement*

(ix) *Reduction in UPR and Municipality Appropriations*

(x) *Pension Reform*

(xi) *Fiscal Controls and Transparency*

The Authority has evaluated the possible effects of the uncertainties and liquidity risks being faced by the Commonwealth and GDB, on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date.

4. RESULTS OF OPERATIONS

As of June 30, 2017 and 2016, the Authority has an accumulated deficit of $961.6 and $863.1 million, respectively. The Authority faces a number of challenges that are closely related to the Commonwealth's economic recession. During the current fiscal year, management continued its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in other to retain existing tenants and attract new agencies and instrumentalities.

Rent receivable includes amount due by agencies and public corporations of the Commonwealths that are overdue. In addition, the Authority has a receivable, presented as due from Commonwealth, for costs incurred in the development of projects that were subsequently suspended. During the fiscal year 2016, $90.5 million was fully reserved as uncollectible. The inability of the Authority to collect the total amount due on time could result in adverse effect on the Authority's financial position and results of operations.

As result to the above, the Authority's deficit increased by $98.4 million during the year ended June 30, 2017 as compared with the restated increase of $570.4 million during the year ended June 30, 2016.

5. UNRESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Deposited in comercial banks:		
Cash in banks	$ 57,212,238	$ 10,250,116
Cerificates of deposits	1,457,123	1,448,716
Total depoited in comercial banks	58,669,361	11,698,832
Deposited in Government Development Bank of PR:		
Certificates of deposits	-	28,162,468
Custodial credit risk loss	-	(28,162,468)
Total cash and cash equivalents	$ 58,669,361	$ 11,698,832

Custodial Credit Risk Loss on Deposit with Governmental Development Bank

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described in note 3 to the financial statements. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

The Commonwealth and its instrumentalities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

As a result, a custodial credit risk loss on unrestricted deposits held with GDB for $0.0 and $28.2 million of cash deposited as of June 30, 2017 and 2016, respectively.

6. RENT RECEIVABLE

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts. Minimum lease rentals are approximately as follows:

Fiscal Year Ending June 30,		Amount
2018	$	423,694,740
2019		423,488,265
2020		429,372,861
2021		450,614,861
2022-2026		2,172,650,642
2027-2031		3,232,434,591
2031-2036		1,839,483,394
2037-2042		2,017,240,797

Lease rental agreements provide for rate revisions every July 1st based on, among other things, debt service requirements for the particular year.

The total amount of rent receivable includes approximately $45.0 million over one year old, $51.8 million over 2 years old and $91.4 million over 3 years old which are fully reserved under an estimated allowance for uncollectible accounts of approximately $191.7 million. The most significant amounts included in the above categories are amounts due from the Puerto Rico Department of Education, Courts Administration, Department of Correction, and the Cardiovascular Center, and the Police Department of the Commonwealth of Puerto Rico, amounting to approximately $249.0 million, $61.3 million, $31.4, $26.9, and $23.6 respectively.

Although the balance of rent receivable at June 30, 2017 and 2016 includes invoices that are overdue, and management has recorded and estimated allowance for uncollectible accounts during 2017 and 2016 as explained above, Law No. 97, Article 15, of May 15, 2006, establishes that any rent to be pay to the Authority during any fiscal year by any department, agency or public corporation of the Commonwealth under the conditions of a rental contract in accordance of the dispositions of Law No. 56 of June 19, 1958, as amended, the Commonwealth will advance to the Authority the amount not paid. This Law requires to the Secretary of Treasury Department to make an advance of any available funds committed by the full faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality, this law requires to the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection. There were no advances from the Commonwealth and the Revenue Collection Center during the years ended June 30, 2017 and 2016.

During the years ended June 30, 2017 and 2016, the Authority received payments from the Departments of Treasury in excess of the amounts owned by the Commonwealth agencies and instrumentalities in the amount of $1.0 and $2.2 million respectively. This amount is included as rent collected in advance in the accompanying statements of net position.

During the year ended June 30, 2017 and 2016, the Authority reduced the rent revenue by $50.9 and $222.5 million, respectively for uncollectible amounts.

7. OTHER RECEIVABLES

Other receivables consist of billings for miscellaneous services performed by the Authority and amounted to approximately $21.8 and $22.3 million for the years ended June 30, 2017 and 2016, respectively. The amount is presented in the accompanying statement of net position net of related allowance for uncollectible accounts amounting to $19.9 million at June 30, 2017 and 2016.

8. RESTRICTED CASH AND CASH EQUIVALENT

Restricted cash and cash equivalents at June 30, 2017 and 2016 consist of the following:

	2017	2016
Interest bearing cash accounts:		
Commercial bank	$ 4,492,977	$ 2,085,647
Government Development Bank of PR		12,427,834
Mutual funds	21,692,645	189,049,872
	26,185,623	203,563,353
Less: Custodial credi risk loss	-	(12,427,834)
Total restricted cash and cash equivalents	$ 26,185,623	$ 191,135,519

Continues

Continued

These amounts are presented in the statements of net position as follows:

	2017	2016
Bond sinking funds	$ 4,492,977	$ 167,231,893
Cash to be deposited in bond sinking funds		834,145
Construction funds	21,692,645	32,226,552
Funds for construction of facilities for other government entities	-	3,270,763
	26,185,623	203,563,353
Less: Custodial credi risk loss	-	(12,427,834)
Total restricted cash and cash equivalents	$ 26,185,623	$ 191,135,519

a. Bond sinking funds - Bond sinking funds consist of monies deposited under Resolution No. 468 and consist of two (2) separate accounts designated as a "Bond Service Account" and a "Redemption Account". Revenues received from debt service rental with respect to facilities financed under Bond Resolution No. 468 are deposited with its respective fiscal agent for the credit as such accounts in the following order:

1) To the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six month of all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months; and

2) To the Redemption Account, in such amount as may be required to make the amount so deposited in the current fiscal year equal to the amortization requirements, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amounts of bonds should be redeemed on the next redemption date from monies in their Bond Sinking Fund.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligation, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association; repurchase or reverse repurchase agreements or any other investment, which are rated in one of the three highest rating categories.

In July 2017, The Authority defaults its bond service payments and the insurer began covering the deficiencies. During year ended June 30, 2017, proceeds from insurer approximately $19.0 million.

b. **Cash to be deposited in bond sinking funds –** These funds represent the funds deposited to be transferred to the bond sinking fund accounts with the fiscal agents.

c. **Construction Funds –** These funds are used for the payment of all or any part of the remaining cost of the initial facilities, as defined, or for payment of all or any part of the cost to the Authority of any additional facilities or Improvements, are defined, in accordance with the Bonds resolutions. At June 30, 2017 and 2016, most of the funds deposited in the construction fund are restricted for the financing of Century 21st school program, as explained below, under School Renovation Funds.

9. DEPOSITS

The Authority is restricted by law to deposit funds only in institutions approved by the Commonwealth of Puerto Rico's Treasury Department, and such deposit are required to be kept in separate accounts in the name of the Authority.

The Authority is authorized to invest in Puerto Rico and U.S government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rated AA or AAA by Moody's Investor Services. Pursuant to the investment Guidelines for the Commonwealth, the Authority may invest in obligation of the Commonwealth, obligations of the United States, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and / or interest-bearings time deposits, or other similar arrangements, as provide by the bond Resolutions.

Custodial Credit Risk- For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial bank's must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority's deposit at June 30, 2017 and 2016 amounts to $83.3 million and $15.7 million, respectively.

10. NOTE RECEIVABLE FROM OTHER GOVERNMENTAL AGENCY

The Authority entered into a note receivable agreement with the Institute of Technology in Ponce Puerto Rico for the payment of construction cost aggregating approximately $7.7 million. This amount will be collected in varying principal installments plus interest at 2.8% through fiscal year 2021.

Future estimated principal and interest collection during future years are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 529,561	$ 51,585
2019	544,635	36,511
2020	560,137	21,009
2021	3,646,936	1,144,810
Total	$ **5,281,269**	$ **1,253,915**

11. TRANSACTIONS WITH COMMONWEALTH OF PUERTO RICO

a. **Rental Revenue and Receivable –** All rental revenues are from charges to the Commonwealth related entities and related rental receivable that are due by such entities.

b. **Contributions –** The Commonwealth, from time to time makes non-operating contributions to the Authority. Capital grants are restricted to finance investment in capital assets.

c. **Advances from Governmental Agencies for Construction of Agencies' Projects –** Represent unspent funds received from federal agencies and municipalities for the construction of projects. At June 30, 2017 and 2016 balance amounted to approximately $553,000 and $460,000, respectively.

12. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 was as follows:

	Year ended June 30, 2017				
	Balance June 30, 2016	Adjustments	Additions	Deductions or Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	$ 129,569,461	$	$ -	-	$ 129,569,461
Construction in progress	62,091,446	(1,718,095)	-	(59,819,820)	553,531
Total capital assets not being depreciated	191,660,907	(1,718,095)	-	(59,819,820)	130,122,992
Capital assets being depreciated:					
Buildings	4,690,627,939	(534,877)	-	59,819,820	4,749,912,882
Equipment and vehicles	13,852,178	-	-	-	13,852,178
Total capital assets being depreciated	4,704,480,117	(534,877)	-	59,819,820	4,763,765,060
Less accumulated depreciation:					
Buildings	(1,376,496,399)	(472,000)	(92,363,843)	-	(1,469,332,242)
Equipment and vehicles	(10,508,908)	527,333	(505,364)	-	(10,486,939)
Total accumulated depreciation	(1,387,005,307)	55,333	(92,869,207)	-	(1,479,819,181)
Capital assets being depreciated, net	3,317,474,810	(479,544)	(92,869,207)	59,819,820	3,283,945,879
Capital assets, net	$ 3,509,135,717	$ (2,197,639)	$ (92,869,207)	$ -	$ 3,414,068,871

	Balance June 30, 2015	Adjustments	Additions	Deductions or Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land	$ 129,550,969	$ -	45,108	$ (26,616)	$ 129,569,461
Construction in progress	111,941,071	-	36,574,458	(86,424,083)	62,091,446
Total capital assets not being depreciated	241,492,040	-	36,619,566	(86,450,699)	191,660,907
Capital assets being depreciated:					
Buildings	4,624,682,349	-	86,424,083	(20,478,493)	4,690,627,939
Equipment and vehicles	14,830,134	-	9,342	(987,298)	13,852,178
Total capital assets being depreciated	4,639,512,483	-	86,433,425	(21,465,791)	4,704,480,117
Less accumulated depreciation:					
Buildings	(1,284,717,087)	-	(90,810,725)	(968,587)	(1,376,496,399)
Equipment and vehicles	(11,711,399)	-	(821,161)	2,023,652	(10,508,908)
Total accumulated depreciation	(1,296,428,486)	-	(91,631,886)	1,055,065	(1,387,005,307)
Capital assets being depreciated, net	3,343,083,997	-	(5,198,461)	(20,410,726)	3,317,474,810
Capital assets, net	$ 3,584,576,037	$ -	31,421,105	$ (106,861,425)	$ 3,509,135,717

a. Capitalized Interest and General Construction Expenses – The Authority capitalized to construction in progress during the fiscal years ended June 30, 2017 and 2016 interest for approximately $0.9 and $3.0 million, respectively. In addition, the Authority capitalized construction general expenses for approximately $2.9 million and $14,500 during the years ended June 30, 2017 and 2016, respectively.

b. 21st Century Schools Programs – Construction in progress at June 30, 2017 and 2016 includes $0.06 and $39.2 million, respectively, related to 21st Century Schools Program (the School Program). The program consists of remodeling of over 100 schools throughout Puerto Rico. To finance the program, the Authority issued government facilities revenue bonds in the amounts of $878 million during the year ended June 30, 2012 of which $10.7 and $15.7 million are deposited in construction funds at June 30, 2017 and 2016, respectively.

The Authority contracted the services of Puerto Rico Infrastructure Financing Authority (AFI, for its acronym in Spanish), a component unit of the commonwealth. To serve as construction manager. Under the contract, AFI is responsible for the management of the program including among others, contracting general contractors and or subcontractors, inspection, supervision and acceptance of the remodeled schools and in certain cases provides maintenance to the schools. AFI bills the Authority the cost of the program plus an agreed administrative fee. Certain of the schools under the program are property of the Department of Transportation and Public Works (DTOP), an agency of the Commonwealth. The Authority leases such schools from DTOP for a minimum rent of $10 per year. When the Improvements of such schools are completed, the Authority will bill rent to the Department of Education of the Commonwealth for the payment of the debt service of the bonds issued under forbearance.

13. LAND AND BUILDING UNDER CONSTRUCTION FOR OTHER GOVERNMENTAL AGENCIES

The Authority did not have any activity related to land and building under construction for other governmental agencies for the year ended June 30, 2017. Activity in land and building under construction for other governmental agencies for the year ended June 30, 2017 is as follows:

	Year Ended June 30, 2017			
	Balance at beginning	Increase	Decreases	Balance at End of Year
Construction in progress	$ 460,329	$ 458,621	$ 365,419	$ 553,531

14. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at June 30, 2017 and 2016 consists of the following:

	2017	2016
Amount payable from unrestricyed assets:		
Puerto Rico Electric Power Authority	$ 2,431,025	$ 3,045,360
Puerto Rico Acueduct and Sewer Authority	370,488	392,336
Employees's Retirement System	8,267,446	3,458,352
General Services Administration	247,201	138,089
Commonwealth of Puerto Rico	2,388,511	2,388,511
Other	132,813	123,849
Total payable for unrestricted assets	$ 13,837,484	$ 9,546,497
Amount payable from restricted assets:		
Puerto Rico Infraestructure Finincing Authority	$ 2,023,050	$ 3,213,227

Of the intergovernmental payables from unrestricted assets, $11.5 million are included in accounts payable balance as of June 30, 2017.

15. BORROWING UNDER LINES OF CREDIT

The activity under the line of credit agreements during the fiscal years ended June 30, 2017 and 2016 is a follow:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2017	Current Portion
Lines of Credits used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	117,441,291		-	117,441,291	-
Total	$ 182,160,107	$ -	$ -	$ 182,160,107	$ -

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Proceeds from Borrowings	Payments/ Decreases	Balance June 30, 2016	Current Portion
Lines of Credits used for:					
Operational activities	$ 64,718,816	$ -	$ -	$ 64,718,816	$ -
Construction activities	113,465,039	3,976,252		117,441,291	
Total	$ 178,183,855	$ 3,976,252	$ -	$ 182,160,107	$ -

During fiscal year 2008, the Authority executed two lines of credit agreements with GDB for the interim financing of its capital improvement program in an amount not to exceed $226 million, bearing interest at a variable rate of 1.50% over prime rate or at such other variable lines as determined by GDB but not less than 6.0%. The lines are due on June 30, 2044 and will be payable from the proceeds of the future revenue refunding bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $66.4 million at June 30, 2017 and 2016.

The Authority maintained an operating line of credit with GDB in which the Authority could borrow up to $75 million, bearing interest at 150 basis point over three-month LIBOR but not less than 5% at any time (7% at June 30, 2017 and 2016). The proceeds from this line were used to finance the Authority's operational expenses for the year ended June 30, 2006. Payments of principal and interest will be from annual appropriations from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution No. 387 of December 21, 2005. The line is due on June 30, 2018. No payments were made for principal and interest amount during the years ended June 30, 2017 and 2016. Balance outstanding under this line of credit amounted to approximately and $64.7 million at June 30, 2017 and 2016.

During fiscal year 2010, the Authority executed lines of credits agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $93.6 million, bearings interest at a variable rate of 1.50% over prime rate or at such other variable rate as determined by GDB but not less than 6% at any time (6% at June 30, 2016 and 2015). The lines are due on June 30, 2044 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority. Balance outstanding under these lines of credit amounted to approximately $51.0 million at June 30, 2017 and 2016.

Total interest expense charged by GDB under the above lines of credit agreements amounts to approximately $11.5 million during the years ended June 30, 2017 and 2016.

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16. BONDS PAYABLE

Bonds payable at June 30, 2017 and 2016 consist of:

		2017		2016
Office Buildings Bond:				
Term bonds maturing through 2021 with interest rates ranging from 5.5% to 6.0%	$	37,315,000	$	37,315,000
Government Facilities Revenue Bonds:				
Serial bonds maturing through 2027, with interest rates ranging from 3.0% to 6.75%		1,579,048,977		1,651,092,000
Term bonds maturing through 2042, with interest rates ranging from 3.0% to 7.0%		2,354,945,000		2,354,945,000
Capital Appreciation bonds, maturing through 2031, with interest rate a 5.45%		22,610,000		22,610,000
Total government facilities revenue bonds		3,956,603,977		4,028,647,000
Subrogated principal paid by monoline insurers		10,086,227		-
Total bonds outstanding		4,004,005,204		4,065,962,000
Add (Deduct):				
Bond discount		(23,895,256)		(25,246,415)
Bond premium		28,293,541		32,598,038
Bonds payable, net		4,008,403,489		4,073,313,623
Less current portion		100,991,226		86,125,000
Bonds Payable	$	**3,907,412,263**	$	**3,987,188,623**

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payment in future years are as follows:

Year Ending June 30,		Principal		Interest
2018	$	100,991,226	$	181,632,621
2019		66,235,000		205,973,886
2020		69,645,000		201,710,005
2021		74,140,000		202,923,303
2022		99,560,000		197,709,522
2023 - 2027		507,165,000		899,630,030
2028 - 2032		1,430,981,000		1,026,454,873
2033 - 2037		725,715,000		344,364,779
2038 - 2043		924,460,925		149,683,200
Total	**$**	**3,998,893,151**	**$**	**3,410,082,219**

The full faith and credit of the Commonwealth is pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds was further supported by the guaranty of the Commonwealth under which the Commonwealth pledged to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may have been be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,721 million.

The Authority bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Services of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2017 and 2016.

The Authority's bonds payable include certain restrictive covenants. At June 30, 2017 and 2016, the Authority was not in compliance with such covenants due to financial constrains carried by the Commonwealth of Puerto Rico.

During the year ended June 30, 2017, monoline insurers of the Authority's bonds made principal and interest payments of approximately $10.1 and $9.0 million, respectively. The monoline insurance policies include express subrogation rights that are limited to the amount actually paid for each of the missed payments of the insured bonds. Although a monoline insurance policy does not contain express subrogation rights and another states subrogation rights broadly, applicable non-bankruptcy law would limit these monoline insurers' rights to reimbursements of the actual amount paid to holders of insured bonds. In addition, for any insured bonds issued by a debtor under Title III of PROMESA, the monoline insurers' claims for repayment will be treated the same as any other insured bond claim under any confirmed Title III plan of adjustment, such that the monoline insurers' may not recover the full amount paid.

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The activity of bonds payable during the fiscal years ended June 30, 2017 and 2016 are as follows:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	**Increase**	**Payments/ Decreases**	**Balance June 30, 2017**	**Current Portion**
Office Building Bonds					
Terms bonds	$ 37,315,000	-	$ -	$ 37,315,000	$ 8,965,000
Government Facilities:					
Revenue bonds	-	-		-	
Serial bonds	1,651,092,000	-	(71,467,134)	1,579,624,866	81,940,000
Term bonds	2,354,945,000	-		2,354,945,000	-
Capital apreciation bonds	22,610,000	-		22,610,000	-
Subrogated principal paid by monoline insurer	-	10,086,227	-	10,086,227	10,086,226
Total	$ 4,065,962,000	$ 10,086,227	$ (71,467,134)	$ 4,004,581,093	$ 100,991,226
Total bonds outstanding	$ 4,065,962,000	$ 10,086,227	$ (71,467,134)	$ 4,004,581,093	$ 100,991,226
Add (deduct):					
Bond discounts	(25,246,416)	-	1,351,160	(23,895,256)	-
Bond premiums	32,598,039	-	(4,304,498)	28,293,541	-
Bonds payable, net	$ **4,073,313,623**	$ **10,086,227**	$ **(74,420,472)**	$ **4,008,979,378**	$ **100,991,226**

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	**Increase**	**Payments/ Decreases**	**Balance June 30, 2016**	**Current Portion**
Office Building Bonds					
Terms bonds	$ 37,315,000	$ -	$ -	$ 37,315,000	$ -
Government Facilities:					
Revenue bonds	-	-	-	-	-
Serial bonds	1,733,092,000	-	(82,000,000)	1,651,092,000	86,125,000
Term bonds	2,354,945,000	-	-	2,354,945,000	-
Capital apreciation bonds	22,610,000	-	-	22,610,000	-
Total	4,110,647,000	-	(82,000,000)	4,028,647,000	# 86,125,000
Total bonds outstanding	4,147,962,000	$ -	$ (82,000,000)	$ 4,065,962,000	$ 86,125,000
Add (deduct):					
Bond discounts	(26,597,576)	-	1,351,160	(25,246,416)	-
Bond premiums	37,667,809	-	(5,069,770)	32,598,039	-
Bonds payable, net	$ **4,159,032,233**	$ **-**	$ **(85,718,610)**	$ **4,073,313,623**	$ **86,125,000**

The bonds payable due on July 1, 2016 was $86,125,000 principal and $100,865,721 interest, for a total payment due of $186,990,721. The payment made by the Authority was $161,717,658. The Authority default of this payment was $25,273,063. Of this amount, the monoline insurers' paid $10,086,277 by October 2016. In January, 2017, the monoline insurers' paid approximately $9 million in interest.

The Authority has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on its debts. Defeased debt, in-substance, and the related assets placed in trust to repay the debt are no longer reported on the face of the financial statements, in accordance with GASB Statement No. 86, Certain Debt

Extinguishment Issues. As June 30, 2017 and 2016, the outstanding balance of defeased bonds was approximately $659.9 and $660 million, respectively.

17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities at June 30, 2017 and 2016 consist of:

	Fiscal Year Ended June 30, 2017				
	Balance June 30, 2016	Increase	Decreases	Balance June 30, 2017	Current Portion
Advances from other governmental agencies	$ 460,329	$ 458,621	$ (365,419)	$ 553,531	$ -
Compesated absences	13,074,142	24,195	(593,245)	12,505,092	3,999,779
Accrued Legal Contingencies	17,857,514	-	(13,080,762)	4,776,752	134,695
Other post-employment benefits	15,888,446	402,805	-	16,291,251	400,765
Voluntary Termination Benefits	4,749,132	25,780,576	(5,973,098)	24,556,611	6,301,591
Total	$ 52,029,563	$ 26,666,197	$ (20,012,524)	$ 58,683,237	$ 10,836,830

	Fiscal Year Ended June 30, 2016				
	Balance June 30, 2015	Increase	Decreases	Balance June 30, 2016	Current Portion
Advances from other governmental agencies	$ 460,329	$ -	$ -	$ 460,329	$ -
Compesated absences	11,368,578	7,833,309	(6,127,745)	13,074,142	7,833,309
Accrued Legal Contingencies	17,048,154	1,761,143	(951,783)	17,857,514	480,724
Other post-employment benefits	14,143,473	2,269,042	(524,069)	15,888,446	390,278
Voluntary Termination Benefits	6,510,778	130,560	(1,892,206)	4,749,132	1,595,085
Total	$ 49,531,312	$ 11,994,054	$ (9,495,803)	$ 52,029,563	$ 10,299,396

a. **Advances from Other Governmental Entities** – This amount represents the balance of the amount advanced by the other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration progress. Upon acceptable of completion, the project is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

b. **Compensated absences** – Employees earn annual vacation leave at the rate of 15 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment. Maximum permissible accumulation for sick leave is 90 days for all employees. The Authority records as a liability and as expense the vested accumulated vacation and sick leave and benefits accrue to employees. The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as non-current liabilities.

c. **Accrued Legal Contingencies –** This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based on the advice and consent of the Authority's legal division and external legal advisors. Actual to be settled may be materially difference from the amount accrued.

d. **Other Post-Employment Benefits –** This amount represents the Authority's liability for its retirement health care benefits under the Healthcare Benefit Plan to Retirees as further described in Note 20.

e. **Voluntary Termination Benefits –** This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees as further explained in Note 21.

18. DUE TO CONTRACTORS

This amount represents the remaining balance due to contractor for projects under construction. Normally, the contractor submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as guarantee that the contractor will complete the project in accordance with contract requirements. Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

19. PENSION PLAN

(a) General Information about the Pension Plan

The Authority participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a cost sharing multiple-employer retirement plan, which covers only eligible full-time employees. The ERS was created by Act No. 447 of May 15, 1951 and provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

The ERS administers different benefits structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000program) and a contributory hybrid program. Benefit provisions may vary depending on a member's date of hire.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by Legislature with Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a

comprehensive reform of the ERS. The Commonwealth does not guarantee benefits at retirement age.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013 and former employees who participated in the defined benefit program and the System 2000 program and were rehired on or after July 1, 2013 become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Benefits Provided – An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30,2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

   If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social

Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service

includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

   If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

   For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

Contributions

The contribution requirement to the ERS is established by Commonwealth law and is not actuarially determined. The following are the member and employer contributions:

1) *Member Contributions*

   Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

2) *Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)*

   Effective July 1, 2011, employer contributions are 9.275% of compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

3) *Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)*

Effective July 1, 2013, the System will receive a supplemental contribution of $2,000 (of which $800 corresponds to the pension plan and $1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

4) *Additional Uniform Contribution (Act No. 32, as Amended)*

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014-2016 was $120 million, payable at end of each fiscal year. The additional uniform contribution determined for fiscal year 2016-2017 was $596 million, payable at the end of the fiscal year. The additional uniform contribution was eliminated in June 2017.

Additional information of the ERS is provided in its financial statements for the year ended June 30, 2017 a copy of which can be obtained from the Administrator of the Retirement Systems of the Commonwealth of Puerto Rico, P.O. Box 42003, San Juan, Puerto Rico 00949.

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Authority recorded a liability of $444,525,548 for our proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2016 and determined by an actuarial valuation as of that date. The Authority's proportionate share of the total net pension liability was based on the ratio of our actual contributions of $9,890,191 paid to ERS for the year ended June 30, 2016 relative to the actual contributions of $779,477,001 from all participating employers. At June 30, 2016, the Authority's proportionate share was 1.179% which increased 0.037% when compared to the proportional share as of June 30, 2015 of 1.142%

For the year ended June 30, 2017, the Authority recognized pension expense of $39,302,004.

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources related to ERS pension benefits:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance of deferred outflows and inflows due to:		
Difference between expected and actual experience	$ 363,435	$ 6,102,635
Changes of assumptions	67,803,860	
Net difference between projected and actual earnings on pension plan investments	-	2,405,256
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,958,082	-
Employer contributions subsequent to the measurement date	16,705,494	-
	$ 115,830,871	$ 8,507,891

$16,705,494 reported as deferred outflows of resources to pensions resulting from contribution subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as collective deferred (inflows) / outflows of resources to be recognized in pension expense:

Year Ending June 30:	
2018	$ 19,483,985
2019	19,483,985
2020	20,336,630
2021	20,555,490
2022	10,757,396
Thereafter	—
	$ 90,617,486

(c) Actuarial Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Significant actuarial assumptions and other inputs used to measure the total pension liability:

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Measurement Date	June 30, 2016
Actuarial cost method	Entry age normal
Asset valuation method	Market value of assets
Inflation	2.50%
Total Payroll Growth	
Future Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 66 and the current general economy.
Cost-of-Living Increases	
Mortality Assumption	Pre-retirement Mortality: For members covered under Act 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for male and females adjusted to reflect Mortality Improvement Scale MP-2016 from 2006 base year, and projected forward using MP-2016 on generational basis. As generational tables, they reflect mortality improvements both before and after measurement date. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for helthy retirees and benifeciaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. As a generational table, it reflects mortality improvements both before and after measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

(d) Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect both actual and anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The June 30, 2016 actuarial valuation for ERS reflects an increase of approximately $3.9 billion in the total pension liability because of the changes in assumptions related to the change in the discount rate as required by GASB Statement No. 67 and an decrease of approximately $250 million in the total pension liability because of differences between expected and actual experience. With the enactment of Act No. 3 of 2013, termination, retirement and disability rates were added for new Act No. 3 members. Also, the compensation increase assumption was revised due to Act No. 66 of 2014.

(e) Long-term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation portfolio that was adopted by the ER'S Board during December 2013 and the actuary's capital market assumptions as of June 30, 2016. The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and estimates of expected rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table:

	Traget Allocation	Long-term expected rate of return
Asset Class:		
Domestic equity	25 %	6.4 %
International equity	10	6.7
Fixed income	64	6.3
Cash	1	3.0
Total	100 %	

(f) Date of Depletion and Discount Rate

The asset basis for the depletion projection is the ERS Fiduciary net position. On this basis, the ERS fiduciary net position became negative in fiscal year 2015 and accordingly no projection of date of depletion is needed. The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

The discount rate used to measure the ERS total pension liability was 2.85%.

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority as of June 30, 2016, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (1.85%) or 1-percentage point higher (3.85%) than current rate:

		At 1% decrease (1.85%)	At current discount rate (2.85%)	At 1% increase (3.85%)
Net pension liability	$	508,373,225	443,235,167	170,571,815

20. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This Statement replaces the requirement of Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployments Benefits Other Than Pensions" (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense / expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state, and local governmental employers.

OPEB are part of an exchange of salaries and benefits for employee service rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial report to reflect systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB, and whether and to what extent progress is being made in funding the funding the plan.

a. **Plan Description –** The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees (the Plan) pursuant to collective bargain agreements. The Plan is administered by the Authority. Benefits consist of a maximum monthly payment (annuity) to cover medical expenses.

   Based on the Plan's features and functionally, and for the purpose of the actuarial valuation, it has been identified as a single – employer defined benefit healthcare plan. Participant groups covered are employees under Collective Labor Agreement with "Union Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), and the Authority's management employees.

   All employees with at least 10 years of rendered services within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

   - For employees that were employed by the Authority at March 30, 1990 the retirement is at 30 years of service.

   - For employees that were employed by the Authority after Match 30, 1990 the retirement is at 10 years of service and 65 years old.

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee gets disable until death. The obligation end in case of death after retirement.

b. Description of The Other Postemployment Benefits Provided – In addition to providing the pension benefits, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority's contribution is limited to $200 monthly per single retired employees up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the collective bargain agreement and will be re-evaluated when the collective bargain agreements are up for renewal. Under this level of benefits provided, the medical cost increases reside with the retiree and, therefore, results in a lower OPEB liability for the Authority.

c. Membership – As of June 30, 2017 and 2016, the number of active employees and retirees amounted to 1,378 and 1,449, respectively.

d. Funding policy – The obligation of the plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The cost of administering the plan are paid by the Authority.

e. Annual OPEB cost and net OPEB obligation – The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in the plan with more than one hundred total plan members.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceeded thirty years.

The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2017 and 2016:

OPEB Obligation

The net OPEB obligation change for the years ended June 30, 2017 and 2016 is as following:

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	2017	2016
Normal OPEB obligation at beginning of year	$ 15,888,446	$ 14,143,473
Total annual OPEB costs	1,174,607	2,269,042
Actuarial change in estimate	(618,748)	-
Actuarial benefits payments	(153,054)	(524,069)
OPEB liability	$ 16,291,251	$ 15,888,446

Components of OPEB costs during the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Annual required contribution (ARC) for the fiscal year	$ -	$ 3,193,225
Service Cost	895,113	-
Actuarial change in estimate	25,888	-
Interest or net OPEB obligation	520,844	413,100
ARC amortization adjustment	(267,238)	(1,860,675)
Total annual OPEB Costs	$ 1,174,607	$ 1,745,650
Actuarial discount rate	3.60%	2.60%

As of June 30, 2017 and 2016, the total aggregate amount of actuarial accrued liability for benefits was $16.2 and $20.3 million, respectively, all of which was unfunded. The covered payroll (annual payroll of actives employees covered by the plan) was approximately $53.3 and $49.9 million during the fiscal years ended June 30, 2017 and 2016, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.3% and 40.6%, respectively. The Authority's annual required contributions were $0.0 and $2.9 million during the years ended June 30, 2017 and 2016, as required by GASB Statement Nos. 75 and 45, respectively.

The projection of future benefit payment for an ongoing plan involves estimates of the value of reported amount and assumption about the probability of occurrence of events far into the future. Examples include assumption about the future employment, mortality, and the healthcare costs trend. Amount determined regarding the funded status of the plan and annual required contribution of the employer are subject to continuous revision as actual results are compare with past expectations and new estimates are made about the future.

f. Methods and Assumptions- Projections of benefits for financial reporting purposes are based on the plan and includes the types of benefits provided at the time of valuation and the historical pattern of benefit cost paid by the employer to date. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The amortization method of the initial unfunded actuarial of accrued liability is the level dollar for a period of 15 years. The amortization method for the gain or loss is the level dollar for a period of 15 years closed. The valuation date was July 1, 2016 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumption supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 2.6% was used. This rate is the best actuarial estimate of expected long-term experience.

The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

21. VOLUNTARY TERMINATION BENEFITS

ON July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provided benefits for early retirements or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provide to eligible employees that have completed between 20 to 29 years of credited service in the Retirement System, between 48 and 55 years to age, and will consist of biweekly benefits of a 50% of each employee' salary, as defined. In this early retirement benefits program, The Authority will make the employee and the employer contribution to retirement system and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the retirement system. Economic incentives are available to eligible employees who have a least 30 year of credited service in the retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited services in the retirement system and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement system for five years period. Additionally, eligible employees that choose to participate in the early retirement

benefit program or that choose the economic incentive and have at least 20 years of credited services in the retirement system are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $16.3 and $15.8 million in the balance sheets as June 30, 2017 and 2016, respectively, and a charge of approximately $.5 and $1.7 thousand in the statement of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, unpaid long-term benefit granted on this program were discounted at 3.60% depending on the employee voluntary termination benefits selected.

22. COMMITMENTS AND CONTINGENT LIABILITIES

a. **Construction –** the Authority has entered into various contracts with outside contractors for the construction of building and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The Authority has an agreement with AFI related to the construction and improvement to public schools on the 21st Century Program. All construction work in progress were completed during the year ended June 30, 2017.

b. **Litigation –** The Authority is defendant or co-defendant in various lawsuits for alleged damage and breach of contracts in cases related to construction projects. In addition, The Authority is defendant or co-defendant in other cases related to public liability and labor related matters. Some of the legal cases related to public liability are covered by insurance.

   The Authority, based on legal advice, recorded an adequate provision to cover probable losses on the claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or result of operations.

c. **Environmental –** During 2012, the Authority identified asbestos in the Central Offices building in Minillas, Santurce, Puerto Rico. Asbestos removal cost was estimated based on environmental engineers' consultant survey. As a result, during the year ended June 30, 2012, the Authority recorded a liability of $2 million for the estimated cost of the removal. During the year ended June 30, 2015, most of the asbestos removal process was completed at a total cost very similar to the total provision recorded in 2012. The Authority has contracted environmental engineers to determine if asbestos exists in other of the Authority's properties. At June 30, 2017, no other property has been identified, therefore, no additional reserve for any future potential liability has been recorded.

23. RESTATEMENT

During the year ended June 30, 2017, management restated prior year's financial statements to implement and establish the beginning balances of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. The restatement includes the initial balance of net pension liability, deferred outflows of resources, and its contributions subsequent to measurement date from fiscal year 2017, and deferred inflows of resources.

The following table summarizes changes to net position at the beginning of the year as previously reported in the statement of Revenues, Expenses and Changes in Net Position.

	2015	2016	2017 Total Net Deficit
Net deficit at beginning of year as previous reported	$ (292,714,356)	$ (548,531,664)	$ (548,531,664)
Restatement adjustment -			
Understatement of Deferred outflows related to pension plan	32,058,291	36,104,265	68,162,556
Understatement of Deferred inflows related to pension plan	(2,053,700)	-	(2,053,700)
Understatement of net pension liability	(325,040,822)	(55,674,092)	(380,714,914)
Understatement of pension expense	11,075,554	19,569,827	30,645,381
Net deficit at beginning of year, as restated	$ (576,675,033)	$ (548,531,664)	$ (832,492,341)

24. REISSUANCE OF FINANCIAL STATEMENT

As management of the Public Buildings Authority ("the Authority"), we reissued the financial statements issued on June 24, 2019, because we subsequently discovered that the agreements with monoline insurers of our bonds contain subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and we are recognizing such liability. Refer to Note 16. Bonds Payable.

Further, management re-evaluated the impact as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. The impact presented in the financial statements issued June 24, 2019 reduced the line of credit due GDB and recognized non-operating income from other contributions from the Commonwealth of Puerto Rico by approximately $40.0 million. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, below.

25. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 18, 2020, which is the date the financial statements were available to be issued. The subsequent events disclosed are principally those which management believes are of sufficient public interest for disclosure.

A. Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Puerto Rico Fiscal Responsibility and Financial Emergency Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the System.

Under these executive orders, certain Commonwealth entities have: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at the Government Development Bank for Puerto Rico (GDB) and suspended the disbursement of loans by GDB. These executive orders restricted the System's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also suspended the obligation of the Commonwealth to transfer certain revenues previously allocated to the System.

On January 2, 2017, the Governor signed into law Act No. 2 of 2017, which amended the Moratorium Act to, among other things, create the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA was also assigned the tasks of overseeing matters related to the restructuring and adjustment of the Commonwealth's financial liabilities (including the Authority), coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Under Act No. 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act No. 5 will expire December 31, 2019, unless extended by the Governor. Some additional powers provided to the Governor through Act No. 5 include the authority to: (i) exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

B. Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, the President of the United States signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities, including the Authority, with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust sustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

Title III of PROMESA established an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a “covered entity”; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) “desire[] to effect a plan to adjust its debts.” PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. See PROMESA § 304(a). As of the date hereof, the Oversight Board, at the request of the Governor, has commenced Title III cases for the Commonwealth and the Authority, among others.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. See PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III case. PROMESA also provides that the commencement of a Title III case “does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality.” PROMESA § 303.

A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file a plan of adjustment. See PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV of PROMESA established the Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions. Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the Title IV stay) from June 30, 2016 (the date of PROMESA’s enactment) through February 15, 2017, of all “Liability Claim” litigation

commenced against the Commonwealth and its instrumentalities after December 18, 2015. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking relief from the Title IV Stay upon "cause shown." PROMESA § 405(e).

C. Commencement of the Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the Authority) to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System's creditors, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the System by filing a petition for relief under Title III of PROMESA in the Title III Court. On that same day, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Highways and Transportation Authority (PRHTA) by filing a similar petition for relief under Title II of PROMESA in the Title III Court. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Electric Power Authority (PREPA) by filing a similar petition for relief under Title III of PROMESA in the Title III Court. On September 27, 2019, the Oversight Board commenced a Title III case for the Authority by filing a similar petition for relief under Title III of PROMESA in the Title III Court. As such, the Authority is a debtor in a proceeding pursuant to Title III of PROMESA.

All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the Title III Court. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees (the Retiree Committee) in the Commonwealth's Title III cases and appointed an Official Committee of Unsecured Creditors for all Title III debtors other than COFINA (the Creditors' Committee).

The System's Title III case was commenced in part due to the May 1, 2017 expiration of the Title IV Stay. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Authority's Title III case pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Authority's Title III case, the Title III Stay immediately went into effect to stay creditor litigation. All claims against the Authority

that arose before the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III.

D. Key Title III Litigation

Appointments Clause Litigation

On August 7, 2017, a group of the Commonwealth's general obligation bondholders led by Aurelius Investment, LLC, Aurelius Opportunities Fund, LLC, and Lex Claims, LLC (collectively, Aurelius) filed a motion to dismiss the Title III petitions. In the motion, Aurelius argued that the appointment of the Oversight Board members violated the "Appointments Clause" of the United States Constitution, which requires that "principal officers" of the United States be appointed by the President and confirmed by the Senate. The Title III Court denied Aurelius' motion to dismiss, and Aurelius appealed to the United States Court of Appeals for the First Circuit. On February 15, 2019, the First Circuit reversed the Title III Court, holding that the Oversight Board members' appointment process violated the Appointments Clause. The First Circuit stayed its ruling for 90 days to allow the President and Senate to appoint the Oversight Board in accordance with the Constitution. It also expressly validated all of the Oversight Board's past actions, including any actions taken by the Oversight Board during the 90-day stay period.

On April 23, 2019, the Oversight Board appealed the First Circuit's decision to the United States Supreme Court by filing its petition for a writ of certiorari. The following day, the Oversight Board filed a motion in the First Circuit requesting an extension of the 90-day stay of its February 15 decision until the Supreme Court's final disposition of the case. On May 6, 2019, the First Circuit granted in part the Oversight Board's extension motion by extending the stay of its February 15 decision until July 15, 2019, but denied the request to extend the stay indefinitely until the Supreme Court's final disposition of the case. On June 20, 2019, the United States Supreme Court granted the Oversight Board's petition for a writ of certiorari and stayed the First Circuit decision pending its final determination. Oral argument on the appeal was heard before the United States Supreme Court on October 15, 2019.

The Fin. Oversight and Mgmt. Bd. for Puerto Rico v. Puerto Rico Public Building Auth., Case No. 18-00149-LTS (D.P.R. Dec. 21, 2018).

On December 21, 2018, the Oversight Board and the Creditors' Committee filed an adversary proceeding against the Authority seeking declaratory relief and disallowance of administrative rent claims, alleging that the Authority leases are not true leases, but rather "disguised financing transactions." Multiple parties have filed motions to intervene. On January 28, 2019, the Authority responded to the complaint. On June 27, 2019, the Oversight Board filed a motion to stay this adversary proceeding pending confirmation of the Commonwealth's Title III plan of adjustment. A hearing on the stay motion was held before the Title III Court on July

24, 2019, but determination of the motion remains pending.

On September 27, 2019, the Financial Oversight and Management Board filed Title III Petition for Covered Territory or Covered Instrumentality to include the Authority.

E. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act 106-2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to the System's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the System's board of trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing both the System and JRS.

Act 106-2017 terminated the previously existing pension programs for the System participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contributions program. The System' active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of the System benefits may be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 1062017. On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 292019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c);

Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and
the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor and FAFAA answered the complaint. This case is currently in its early stage and the Title III Court has not yet made a final determination on the merits.

F. Installment Agreements with Employees' Retirement System of the Commonwealth of Puerto Rico

The Authority had a debt with the Employees' Retirement System due to special laws approved during 2016-2017, uniform additional contribution, and interests, amounting to $12.1 million as of December 23, 2016. On January 4, 2017 the Executive Director signed an installment agreement in order to pay the whole debt. The installment agreement gave the opportunity to the Authority to pay the overdue debts and still paying the current remittances. The Authority paid a down payment, six fix installments and a final lump sum of $8,267,446 in July 18, 2017 taking advantage of the clause that allow to make additional payments and pay off debt in advance, in order to get zero balance due before the change in the method.

On August 10, 2017 the Governor Ricardo Rosselló Nevares signed legislation that established a new defined contribution plan for active workers and new hires to be administered by a third-party provider and fund existing pension obligations on a "pay-as-you-go" basis, which means the government will pay benefits to retirees directly as they come due, rather than attempting to pre-fund future benefits via a retirement system's investment fund. Enrolling both active employees and newly hired workers in a true defined contribution retirement system. The Authority adopted the "pay-as-you-go" system and accrued the total amount of the debt in a payable account and paid the required amounts to the Puerto Rico Department of Treasury.

G. Catastrophe Events

On September 20, 2017, the island of Puerto Rico was devastated by hurricane Maria. The hurricane caused catastrophic destruction in Puerto Rico, including severe damages to the electric power system, and left the island completely without power.

The Authority received advance recovery proceeds from the insurance company of $35 million from October 2017 to August 2018. From April 2018 to May 2019, the Authority received $7.6 million from Federal Emergency Management Agency (FEMA) as reimbursements for expenses paid by the Authority related to damages caused by hurricane Maria.

Further, since December 28, 2019, the southwest portion of the island was impacted by a series of earthquakes, with the most powerful, a 6.4, on January 7, 2020. Several buildings were affected, and the Authority is evaluating the damages.

Furthermore, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States and Puerto Rico. As a result, and in response to the executive orders of the President of the United States and the Governor of the Commonwealth of Puerto Rico, executive orders: Families First Coronavirus Response Act (“FFCRA”), and Implementation of the Necessary Closings of Private and Government Operations to Combat the Effects and Spread of COVID-19 in the Island of Puerto Rico, issued on March 18, 2020 and March 15, 2020, respectively, and their amendments; we have temporarily closed our operating locations, reduced operating hours, and have seen a reduction in citizen traffic, all resulting in a negative impact to Puerto Rico’s government and private operations. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

H. GDB Qualifying Modification and Title VI Approval Process

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled the Public Entity Trust (the PET).

On August 24, 2017, the Governor signed into law Act No. 109, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), which effectuated the GDB Fiscal Plan and provided a path for the implementation of a restructuring support agreement between GDB and certain of its key creditor constituencies by addressing the claims of the Commonwealth and its instrumentalities against GDB. The GDB Restructuring Act created two special purpose entities—the GDB Debt Recovery Authority and the PET—into which the GDB would divide and irrevocably transfer its assets. Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Authority (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

The assets of the PET (the PET Assets) consist of among other items, a claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth case pending under Title III of PROMESA. The Authority's recovery on account of its interest in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification (except for as set forth therein), and GDB has reduced the amount of any allowed claim against the Commonwealth it may receive as set forth in such Qualifying Modification.

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018.

I. Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

J. Oversight Board Files Joint Plan of Adjustment for the Commonwealth, the System, and the Authority

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, the System, and PBA in their respective Title III cases—filed a joint Title III plan of adjustment for the Commonwealth, the System and PBA [ECF No. 8765] (the Joint Plan) along with a disclosure statement related thereto [ECF No. 8766] (the Disclosure Statement). In general terms, the Joint Plan proposes a restructuring of the Commonwealth's debts by, among other things:

- reducing the Commonwealth's liabilities from approximately $35 billion to approximately $12 billion;
- reducing unchallenged GO bond claims by 36%;
- allowing local bondholders to elect to receive taxable bonds with monthly interest payments in exchange for their claims;
- setting challenged GO bond and Commonwealth guaranteed claims with reductions between 55% (for 2012 GO bonds) and 65% (for 2014 GO bonds);
- reducing the System's bonds by 87%;
- reducing unchallenged Authority bonds by 28%; and
- reducing challenged Authority bonds by 42%.

In addition, the Joint Plan and Disclosure Statement contemplates an 8.5% pension cut across all of the Retirement Systems, including the System. However, if confirmed, the Joint Plan's pension cut formula would not apply to beneficiaries receiving monthly benefits of $1,200 or less. For further information on the proposed terms of the pension cut, please refer to the publically available Disclosure Statement available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

According to the Joint Plan and Disclosure Statement, the Joint Plan also contemplates establishing a pension reserve fund (the Reserve Fund) that "will be funded through the projected surplus to be used to provide funding for PayGo" and "will be held in a trust for the sole benefit of beneficiaries of PayGo." If the Joint Plan is confirmed, the Reserve Fund will be established on the Joint Plan's effective date and operate as "a reserve trust which will be utilized to secure the Commonwealth's pension obligations under Act 106," which established the PayGo system. The Reserve Fund will be managed by an independent entity whose members must meet certain independent, professionalism, experience, and qualification standards, and will be subject to all government contracting, ethics, and conflicts of interest laws and regulations. The Reserve Fund will be funded initially with a $5 million contribution from the Commonwealth, then from fiscal year 2020 through fiscal year 2027, the Commonwealth will make additional annual contributions in the amount of (i) $175 million; or

(ii) 25% of any projected annual Fiscal Plan surplus exceeding $1.75 billion, whichever is greater.

The Joint Plan proposes no changes to the Authority's governance structure or the Authority's prepetition collective bargaining agreements during or following the Authority's Title II Case, unless any such changes are approved by both the Oversight Board and FAFAA. In addition, all general unsecured claims against the Authority would be unimpaired under the Joint Plan proposal. The Joint Plan currently remains subject to ongoing negotiation, solicitation, and final approval by the Title III Court.

For further information, please refer to the publically available Joint Plan and Disclosure Statement available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

K. Other Significant Subsequent Events Regarding the Authority

The fiscal year 2018 budget includes significant reductions in agencies' expenditures, encompassing almost all line items of expenditures, such as payroll and related costs, purchased services, subsidies, public service facilities, transportation costs, equipment purchases, materials and supplies, media advertising and federal funds local matching, among others.

The Authority requested annual operational budgets of $135 million for fiscal years 2016-2017, 2017-2018, and 2018- 2019 of which only $90 million funds were approved for annual budgets

2016-2017 and 2017-2018, by the Puerto Rico Office of Management and Budget (OMB) and $114.7 million for 2018-2019 period, by the Financial Oversight and Management Board for Puerto Rico (FOMB). Management believes the assigned resources for operational expenses, including payroll, are insufficient. This situation seriously constrains the Authority's liquidity, and additionally could affect the going concern of its operations in the near future.

Most of such lease payments are subject to legislative appropriation from the Commonwealth's General Fund Budget. The Authority's lease payments and its bonds are, however, guaranteed by the good faith, credit and taxing power of the Commonwealth. The Authority bonds, therefore, constitute Commonwealth Guaranteed Obligations. The Authority is currently authorized by law to have outstanding at any time up to $4.7 billion of bonds guaranteed by the Commonwealth.

On July 1, 2016, the Authority defaulted its bond obligations. Of the approximately $186.9 million debt service ($86.1 million in principal and $100.9 million in interest) due on the Authority outstanding bonds, all was paid except principal of $25.2 million. In October 2016,

applicable to the unpaid $25.2 million, the Authority paid bond principal amount of $10.4 million from proceeds received of bond insurance. From July 1, 2018, the Authority has not received IRS grant for payment of bonds.

Of the outstanding bonds debt service requirements, interest due in October 2017 of approximately $12.4 million, approximately $3.3 million remain unpaid. The amount of interest that was paid reflects amounts received from applicable interest subsidy programs. Of the outstanding bond interest debt service due in January 2018 of approximately $97.5 million, approximately $78.4 million remained unpaid. The amount of interest that was paid reflects amount received from applicable interest subsidy programs and the proceeds from insurance. Of the outstanding bonds debt service due in April 2018 of approximately $12.4 million, of approximately $3.3 million remained unpaid. The amount of interest that was paid reflects mount receive from applicable interest subsidy programs. Of the outstanding bonds debt service due in July 2018 of approximately $164.5 million, approximately $134.5 million remained unpaid. The amount of principal and interest that was paid reflects amount received from the proceeds from insurance**.** The service payment due in October 2018 of approximately $12.4 million was defaulted because the Authority did not receive the subsidy programs. Of the outstanding bond interest debt service due in January 2019 of approximately $98.0 million, approximately $83.5 million remained unpaid. The amount of interest that was paid reflects amount received from the proceeds from insurance. The service payment due in April 2019 of approximately $12.4 million was defaulted because the Authority did not receive the subsidy programs.

On November 29, 2018, pursuant to Article 501 of Act No. 109-2017, as amended, the Puerto Rico Fiscal Agency Advisory Authority (AAFAF, Spanish acronym) confirmed the GDB post-setoff loan balance of approximately $137.4 million.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND AUTHORITY'S CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2017

The following schedules are being presented to provide information on the Authority's proportionate share of the Net Pension Liability and the Authority's contributions related to the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities.

Schedule Public Buildings Authority's Proportionate Share of the Net Pension Liability

		Fiscal Year 2017
Authority's proportion of the net pension liability		1.17915%
Authority's proportionate share of the net pension liability	$	444,525,548
Authority's covered-employee payroll	$	49,381,740
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll		900%
Plan's fiduciary net position as a percentage of the total pension liability		(3.47)%

Schedule of Authority's Contributions

Statutorily required employer contribution	$	9,890,191
Amount of contributions recognized by the pension plan in relation to the statutorily required contributions	$	7,860,508
Contribution excess (deficiency)	$	2,029,683
Authority's covered-employee payroll	$	49,381,740
Contributions recognized by the pension plan as a percentage of covered-employee payroll		15.92%

Amounts presented above were based on measurement period ending June 30, 2016

The Schedule of Authority's Contributions is intended to present information for 10 years. Additional years will be displayed as they become available.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR POST-EMPLOYMENT HEALTHCARE BENEFITS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Valuation Date June 30.	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
2012	$ -	$ 26,162,334	$ 26,162,334	- %	$ 52,933,339	49.4%
2013	$ -	$ 20,522,160	$ 20,522,160	- %	$ 51,120,417	40.2%
2014	$ -	$ 22,260,737	$ 22,260,737	- %	$ 58,039,372	38.4%
2015	$ -	$ 20,381,941	$ 20,381,941	- %	$ 52,832,651	38.6%
2016	$ -	$ 20,307,833	$ 20,307,833	- %	$ 49,973,803	40.6%
2017	$ -	$ 20,925,162	$ 20,925,162	- %	$ 52,717,361	39.7%

OTHER SUPPLEMENTARY INFORMATION

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF BONDS SINKING FUNDS ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

		Bond Service Account
Governmental Facilities Bonds		
Balance at July 1, 2016	$	166,205,731
Receipts:		
Debt service rental		47,544,108
Investment income		4,420
Deposits from other accounts		484
Disbursements:		
Payment of bonds interest on bonds		(146,230,079)
Payment of bonds principal on bonds		(64,057,849)
Balance at June 30, 2017		3,466,815
Office Buildings Bonds		
Balance at July 1, 2016		1,026,162
Receipts:		
Transfers from other accounts		2,052,324
Disbursements:		
Payment of bonds interest on bonds		(2,052,324)
Balance at June 30, 2017		1,026,162
Total bond sinking funds	$	4,492,977

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF OPERATING RENTAL REVENUES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

Office Buildings		
Debt Service Rental - bonds and notes	$	80,590,716
Operating and administrative		53,573,435
Equipment reserve rentals		4,702,303
Total office buildings		138,866,455
Public Education Buildings		
Debt service rental- bonds and notes		189,612,944
Operating and administrative		55,805,553
Equipment reserve rentals		17,499,822
Total public education buildings		262,918,319
Health Facilities		
Debt service rental - bonds andnNotes		10,581,714
Operating and administrative		1,596,082
Equipment reserve rentals		812,423
Total health facilities		12,990,218
Total operating rental revenues		414,774,992
Uncollectible amounts		50,980,253
Total operating rental revenue, net	$	363,794,739

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico):

We have audited, in accordance with the auditing standards generally accepted in the United States of the America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Public Buildings Authority ("the Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 18, 2020. The following emphasis of matter paragraphs were reported as follows:

Emphasis of Matter

Reissuance of June 30, 2017 financial statements

As reflected in Note 24, the Authority reissued the financial statements issued on June 24, 2019, because the management subsequently discovered facts about the agreements with monoline insurers of the Authority's bonds containing subrogation rights limited to the actual amount paid for each of the missed payments on the insured bonds and recognized such liability.

Also reflected in Note 24, the Authority's management subsequently discovered facts about the impact recorded as of June 30, 2017 of the agreement effected on November 29, 2018, between the Authority and the Government Development Bank (GDB) allowing for the offsetting of Authority's cash balances deposited with GDB against the lines of credit due GDB. After further consideration of the legal aspects of the agreement, management corrected the balances reflected in the Statement of Net Position (Deficit) as of June 30, 2017 and the Statement of Revenues Expenses and Changes in Deficit for the year then ended.

Since the cash deposited with GDB was deemed impaired as of June 30, 2016, management had presented the impact of the agreement in the financial statement issued June 24, 2019. However, after further consideration of the legal aspects of the agreement, management decided to remove the impact as of June 30, 2017, and leave only the disclosure in Subsequent Events, in the notes.

Our opinion was not modified with respect of the above matters.

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To the Board of Directors of the
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Emphasis of Matter (continued)

Uncertainty about Ability to Continue as a Going Concern-the Authority

Financial Deterioration of the Commonwealth of Puerto Rico (Commonwealth) and of the Government Development Bank for Puerto Rico (GDB)

The accompanying basic financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 3, 6, and 11 to the financial statements, the Authority is a component unit of the Commonwealth. As of June 30, 2017, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Authority depends significantly on appropriations from the Commonwealth, the financial condition and liquidity of the Authority has been similarly affected. Further, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation and plans regarding these matters are described in note 3 to the basic financial statements. The Authority has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations, and has concluded that, as of June 30, 2017, the Authority will continue to operate as a going concern for a period not less than twelve months after such date. Our opinion is not modified with respect to this matter.

Internal control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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Internal control over Financial Reporting (continued)

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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We consider the following deficiencies in internal controls to be material weaknesses:

1. Develop a year-end closing schedule

This year's closing process was delayed because some important procedures were not performed on time. The results were delays in producing closing entries, accurate trial balances, schedules, reconciliations, account analyzes, required disclosures and other financial reports needed by management and the auditors. We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates could be monitored to determine that they are being met.

During the audit, we recommended eight adjusting journal entries. The effect of such entries was to increase net income and decrease in net position by $61,161,900 and $7,517,756, respectively. Substantially all of the entries were to make accruals and other adjustments, including the implementation of GASB No. 68 - Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27, and the settlement with GDB that should have been made by the accounting department. We believe that a review and evaluation of transactions and proper monthly closing procedures would expedite the year-end closing and reduce audit time and professional fees.

Management's response:

Monthly closing schedule is prepared at the beginning of fiscal year. Financial accounting software modules are worked out by accounting employees who generate financial accounting reports to reconcile general ledger accounts. The closing process is supervised by accounting managers who report completion to the executive level of the Authority. The accounting department continues to be understaffed and is unable to timely address the required duties.

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2. Bank reconciliations

We noted that bank balances were not reconciled on time. A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared in a monthly basis to determine that all cash transactions have been recorded properly and to discover bank errors.

Management's response:

Management already sent to employees a communication with the closing dates. As a result of lack of employees, the Authority failed to execute properly.

We consider the following deficiencies in internal controls to be significant deficiencies:

3. Capital Assets

During our audit, we noted that capital assets balances were not properly roll forwarded and reconciled from the year ended June 30, 2016 to June 30, 2017. We recommend that the Corporation reconcile the rollforward record on a monthly basis. This will result in a more efficient treatment for property and equipment and also eliminate unnecessary work by the accounting personnel during and reduce audit time and professional fees.

Management's response:

Accounting management is monitoring the accounting system and communicating with accounting staff with the objective to obtain an accurate monthly closing and reporting to upper management.

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Compliance and Other Matters

As a part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. This result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
March 18, 2020

Certified Public Accountants
License No. 231 expires December 1, 2021
Stamp No. 381407 of the P.R. Society of
Certified Public Accountants has been
Affixed to the file copy of this report

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